

**South Carolina State  
Education Assistance Authority**

***Report on Financial Statements***

***For the years ended June 30, 2017 and 2016***

---

September 29, 2017

Members of the Authority  
South Carolina State Education Assistance Authority  
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina State Education Assistance Authority and the accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for the fiscal year ended June 30, 2017, was issued by Elliott Davis Decosimo, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,



George L. Kennedy, III, CPA  
State Auditor

GLKIII/cwc

---

# South Carolina State Education Assistance Authority

## Contents

---

	<u>Page</u>
Office of the State Auditor Transmittal Letter.....	1
Independent Auditor's Report .....	2-3
Management's Discussion and Analysis .....	4-7
<b>Financial Statements</b>	
Statements of Net Position .....	8
Statements of Revenues, Expenses and Changes in Net Position .....	9
Statements of Cash Flows .....	10-11
Notes to Financial Statements .....	12-31
<b>Supplementary Information</b>	
Schedule of Net Position by Fund .....	32-33
Schedule of Revenues, Expenses and Changes in Net Position by Fund .....	34
Schedule of Cash Flows by Fund .....	35-36
Schedule of Operating Expenses Compared to Budget .....	37
Schedule of Organizational Data.....	38
<b>Federal Reporting and Single Audit Awards</b>	
Schedule of Expenditures of Federal Awards .....	39
<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....</b>	
	40-41
<b>Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance .....</b>	
	42-43
Schedule of Findings and Questioned Costs.....	44
Summary Schedule of Prior Audit Findings .....	45



## **Independent Auditor's Report**

Mr. George L. Kennedy, III, CPA  
State Auditor  
Office of the State Auditor  
Columbia, South Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the South Carolina State Education Assistance Authority (the "Authority"), a component unit of the State of South Carolina, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina State Education Assistance Authority as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The individual fund schedules, schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, schedule of operating expenses compared to budget and schedule of organizational data are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund schedules and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of operating expenses compared to budget and schedule of organizational data have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Columbia, South Carolina  
September 29, 2017

# South Carolina State Education Assistance Authority

## *Management's Discussion and Analysis*

---

The South Carolina State Education Assistance Authority (the "Authority") was originally created to fill functions to provide and guarantee financing for education loans for students and parents. As a provider of financing, the Authority issued bonds to finance education loans. As a guarantor, the Authority processed loans submitted for guarantee, provided collection assistance for delinquent loans, paid claims for loans in default, collected loans on which default claims had been paid, and made appropriate responses to the United States Secretary of Education (the "Secretary"). As stipulated in the Health Care and Education Reconciliation Act ("HCERA") of 2010, effective July 1, 2010, all federal loan originations are required to be made through the federal Direct Loan Program. Therefore, the Authority did not provide a guarantee for federal loans originated since July 1, 2010.

As a result of the HCERA of 2010 and subsequent actions taken by the federal government which nationalized the federally-guaranteed student loan program, continuing guarantor operations under the guaranty agreement between the Authority and the United States Department of Education ("USDE") would result in an economic loss to the Authority. Therefore on June 22, 2016, the State Fiscal Accountability Authority ("SFAA") initiated action to terminate the guaranty agreement between the Authority and USDE. Effective December 1, 2016, a USDE designated guaranty agency accepted the transfer of all of the Authority's outstanding guarantees and the Authority's post-claim portfolio. The Authority no longer serves as a guaranty agency for the USDE.

As mentioned above, the Authority was originally created to provide a means of making loans to students in order to enable them to attend eligible institutions, as defined in the Higher Education Act. Such loan financing has been conducted by the Authority through its Student Loan Finance Program which has been administered by the South Carolina Student Loan Corporation ("SCSLC") since its inception.

SCSLC and the Authority have entered into a loan agreement pursuant to terms in which the Authority has agreed to lend bond proceeds to SCSLC to enable SCSLC to make or acquire education loans. The obligation of SCSLC to repay the finance loans is evidenced by a promissory note of SCSLC and is secured by a pledge under the loan agreement.

This section of the Authority's annual financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2017. Please read it in conjunction with the Authority's Statements of Net Position, Statements of Revenue, Expenses and Changes in Net Position, Statements of Cash Flows, and the Notes to Financial Statements, which follow this section.

### **Financial Highlights:**

The Authority's total assets at June 30, 2017, were approximately \$195,176,000 which is a decrease of approximately \$16,273,000 or 8% from June 30, 2016. The decrease in assets was primarily due to reductions of approximately \$6,077,000 in finance loan receivable and approximately \$3,733,000 in federal reinsurance receivable.

The decrease in finance loan receivable reflected provisions of the loan agreement with SCSLC related to the Authority's 2009 Palmetto Assistance Loan ("PAL") General Resolution. The federal reinsurance receivable reduction is a result of the termination of the guaranty agreement between the Authority and USDE.

# South Carolina State Education Assistance Authority

## *Management's Discussion and Analysis*

---

### **Financial Highlights, Continued:**

The Authority's operating revenue for the fiscal year ended June 30, 2017, was approximately \$8,371,000 reflecting a decrease of approximately \$1,525,000 or 15% from the fiscal year ended June 30, 2016. This decrease is primarily attributed to a reduction of approximately \$773,000 or 62% in account maintenance fees and approximately \$1,044,000 or 23% in retention on default collections. Both the account maintenance fees and the retention on default collections were income items associated with the guaranty agency function of the Authority. As a result of the termination of the guaranty agreement between the Authority and USDE, these income items were no longer generated.

The Authority's interest expense for the fiscal year ended June 30, 2017, was approximately \$2,133,000, a decrease of approximately \$288,000 or 12% from the fiscal year ended June 30, 2016. This reduction was primarily due to the normal payment activity on the outstanding bonds of the Authority during fiscal year 2017.

Operating expenses were approximately \$4,300,000, a decrease of approximately \$1,560,000 or 27% from the fiscal year ended June 30, 2016. The main reason for the decline in operating expenses relates to third-party collection expenses which decreased by approximately \$643,000 from the fiscal year ended June 30, 2016. Beginning February 17, 2016, the Authority no longer outsourced debt collection services and brought all those operations in house.

After the termination of the guaranty agreement between the Authority and USDE effective December 1, 2016, a remaining balance of \$6,809,901 in the Federal Student Loan Reserve Fund was returned to the USDE which resulted in an increase in non-operating expenses.

During fiscal year 2015, the SFAA authorized funding from the Agency Operating Fund ("AOF") for the Default Prevention Program which partners with South Carolina colleges and universities to reduce defaults on loans for their students. The program is administered by SCSLC with funding from the AOF. Expenses of \$935,600 were incurred this fiscal year for services. During June 2017, the South Carolina State Treasurer notified SCSLC that the fiscal year 2018 budget submitted for the Default Prevention Program was disapproved. Therefore, services for this program have ceased at this time.

### **Overview of the Financial Statements:**

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied on the accrual basis. Under the accrual basis of GAAP, revenues are recognized during the period in which they are earned and expenses are recognized during the period in which they are incurred. The three basic financial statements presented within the financial statements are as follows:

**Statements of Net Position** - This statement presents information regarding the Authority's assets, liabilities and net position. Net position represents the total assets less the total liabilities. The Statements of Net Position classifies assets and liabilities as current and long-term and net position as net investment in capital assets, restricted, and unrestricted.

**Statements of Revenues, Expenses and Changes in Net Position** - This statement presents the Authority's operating revenues, operating expenses, non-operating income and expenses, and changes in net position for the fiscal year.

# South Carolina State Education Assistance Authority

## Management's Discussion and Analysis

**Statements of Cash Flows** - The Authority's Statements of Cash Flows is presented on the direct method of reporting, which reflects cash flows from operating, non-capital financing, capital and related financing and investing activities.

### Financial Analysis of the Authority:

The Authority's total net position at June 30, 2017 was approximately \$149,744,000, which is a decrease of approximately \$4,514,000 or 3% from June 30, 2016. Components of the Authority's Statements of Net Position as of June 30 are as follows:

	<u>2017</u>	<u>2016</u>	<u>Percentage +/-</u>
Current assets	\$ 100,690,949	\$ 110,269,765	-8.69%
Long-term assets			
Capital assets	34,592	93,264	-62.91%
Other long-term assets	<u>94,449,991</u>	<u>101,085,261</u>	-6.56%
Total assets	<u>\$ 195,175,532</u>	<u>\$ 211,448,290</u>	-7.70%
Current liabilities	\$ 7,602,433	\$ 11,987,726	-36.58%
Long-term liabilities	<u>37,829,352</u>	<u>45,202,571</u>	-16.31%
Total liabilities	<u>45,431,785</u>	<u>57,190,297</u>	-20.56%
Net position:			
Net investment in capital assets	34,592	93,264	-62.91%
Restricted	68,370,676	72,993,932	-6.33%
Unrestricted	<u>81,338,479</u>	<u>81,170,797</u>	0.21%
Total net position	<u>149,743,747</u>	<u>154,257,993</u>	-2.93%
Total liabilities and net position	<u>\$ 195,175,532</u>	<u>\$ 211,448,290</u>	-7.70%

Components of the Statements of Revenues, Expenses and Changes in Net Position for these two fiscal years are as follows:

	<u>2017</u>	<u>2016</u>	<u>Percentage +/-</u>
Operating revenues:			
Loan interest income	\$ 3,257,758	\$ 3,495,294	-6.80%
Guaranty agency income	<u>5,113,382</u>	<u>6,401,068</u>	-20.12%
Total operating revenues	<u>8,371,140</u>	<u>9,896,362</u>	-15.41%
Operating expenses:			
General administration	1,851,537	3,290,529	-43.73%
External loan servicing	474,027	526,163	-9.91%
Borrower incentives	108,746	115,552	-5.89%
Default prevention program	935,600	1,250,000	-25.15%
Other fees	<u>930,460</u>	<u>678,412</u>	37.15%
Total operating expenses	<u>4,300,370</u>	<u>5,860,656</u>	-26.62%
Operating income	4,070,770	4,035,706	0.87%



## South Carolina State Education Assistance Authority

### Management's Discussion and Analysis

#### Financial Analysis of the Authority, Continued:

	2017	2016	Percentage +/-
Non-operating income (expenses):			
Investment income	357,702	149,250	139.67%
Interest expense	(2,132,817)	(2,420,706)	-11.89%
Recall of federal reserve funds	(6,809,901)	-	
Total non-operating expenses	(8,585,016)	(2,271,456)	-277.95%
Change in net position	(4,514,246)	1,764,250	-355.87%
Beginning net position	154,257,993	152,493,743	1.16%
Ending net position	\$ 149,743,747	\$ 154,257,993	-2.93%

#### Debt Administration:

The Authority funds student loan notes by issuing tax-exempt bonds. The bonds must be approved by the Authority and SCSLC's Board of Directors prior to being issued. Tax-exempt bonds also must receive an allocation of the State of South Carolina private activity volume ceiling or "cap". In addition, the financings must comply with federal statutes and with the rules and regulations of the United States Treasury Department.

At June 30, 2017 and 2016, the Authority had \$39,510,000 and \$45,385,000 principal amount of bonds outstanding, respectively. Detailed information on the Authority's debt is presented in Note 8 to the financial statements.

	2017	2016	Percentage +/-
Student and finance loan receivables	\$ 61,608,823	\$ 69,449,542	-11.29%
Bonds outstanding	39,510,000	45,385,000	-12.94%

#### Economic Outlook:

SCSLC made the decision to transfer the servicing of its loan portfolio to a third party sub-servicer instead of performing the servicing function internally. The first conversion consisted of the Federal Family Education Loan Program ("FFELP") loans and was completed on August 19, 2016. SCSLC is the lender of these loans. The private loan conversion was completed during the fiscal year ended June 30, 2017. The student loans of the Authority are included in the loans transitioned to the sub-servicer.

As discussed further in the *Reporting Entity* section of Note 1, the Authority transferred all of its outstanding guarantees and post-claim portfolio to Educational Credit Management Corporation ("ECMC") effective December 1, 2016. As part of this transfer, the Authority agreed to reimburse ECMC up to \$737,000 of the default aversion fee previously earned from USDE due to claims filed by the eligible lender. The reimbursement of \$737,000 was agreed to be paid out over a sixty-month period beginning December 1, 2016 through December 1, 2021 and will be paid quarterly out of the Agency Operating Fund.

**South Carolina State Education Assistance Authority**  
**Statements of Net Position**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets</b>			<b>Current liabilities</b>		
Cash and cash equivalents	\$ 89,197,909	\$ 93,778,399	Accounts payable	\$ 4,956,341	\$ 4,846,118
Cash and cash equivalents - restricted	3,397,975	3,275,779	Due to South Carolina Student Loan Corporation	797,900	5,908,177
Receivables			Due to United States Department of Education	168,584	242,042
			Consolidation rebate fee payable	-	1,869
			Customer refunds payable	7,672	47,344
			Unearned revenues	2,900	6,971
Current portion of student loans	1,966,202	2,011,044	Payable from restricted assets		
Current portion of finance loans	5,027,638	6,188,245	Current portion of bonds payable	1,185,000	380,000
Interest due from borrower	473,296	422,249	Accrued bond interest payable	484,036	555,205
Due from South Carolina Student Loan Corporation	484,073	555,205	Total current liabilities	<u>7,602,433</u>	<u>11,987,726</u>
Due from servicers	132,801	-			
Accrued interest receivable	5,723	698	<b>Long-term liabilities</b>		
Federal reinsurance receivable	-	3,732,810	Bonds payable, less current maturities	37,829,352	44,447,396
Account maintenance fee receivable	-	300,000	Provision for losses on student loans	-	755,175
Prepays	5,332	5,336	Total long-term liabilities	<u>37,829,352</u>	<u>45,202,571</u>
Total current assets	<u>100,690,949</u>	<u>110,269,765</u>	Total liabilities	<u>\$ 45,431,785</u>	<u>\$ 57,190,297</u>
<b>Long-Term and other assets</b>			<b>Net position</b>		
Receivables			Net investment in capital assets	\$ 34,592	\$ 93,264
Student loans, less current portion and net of			Restricted for:		
allowance for loan loss of \$11,456 in 2017 and \$4,650 in 2016	17,240,847	18,959,848	Debt service		
Finance loans, less current portion	37,374,136	42,290,405	Bond indentures - 2009 resolution	7,270,024	7,285,129
Due from South Carolina Student Loan Corporation	39,835,008	39,835,008	Other		
Total long-term and other assets	<u>94,449,991</u>	<u>101,085,261</u>	Federal government	-	5,685,587
			Guaranty agency operating account	61,100,652	60,023,216
<b>Property and equipment</b>			Unrestricted	81,338,479	81,170,797
Furniture and equipment	634,360	634,360	Total net position	<u>\$ 149,743,747</u>	<u>\$ 154,257,993</u>
Less: accumulated depreciation	(599,768)	(541,096)			
Total property and equipment	<u>34,592</u>	<u>93,264</u>			
Total assets	<u>\$ 195,175,532</u>	<u>\$ 211,448,290</u>			

**See Notes to Financial Statements**

**South Carolina State Education Assistance Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the years ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating revenues</b>		
United States Department of Education		
Account maintenance fee	\$ 477,447	\$ 1,250,160
Default aversion fee income	267,269	161,801
Retention on default collections (net of payments to federal government of \$2,312,890 in 2017 and \$8,007,771 in 2016)	3,529,545	4,573,697
Income from South Carolina Student Loan Corporation		
Subsidized interest	65,231	101,912
Special allowance	(678,205)	(828,140)
Non-subsidized interest	1,208,628	1,298,919
Late charges	8,149	10,975
Miscellaneous payments of student loans	26	(5)
Reimbursement of bond expense	2,653,929	2,911,633
Reinsurance recoveries	839,121	415,410
Total operating revenues	<u>8,371,140</u>	<u>9,896,362</u>
<b>Operating expenses</b>		
Personnel	1,503,673	1,990,397
Contractual	104,978	191,926
General operating	242,886	465,111
South Carolina Student Loan Corporation for operating costs	474,027	526,163
Default aversion fee expense	497,639	161,801
Loan fees	395,432	436,422
Borrower incentives	108,746	115,552
Broker/dealer fees	26,303	21,297
Reinsurance expense	3,722	65,443
Loan loss reserve	6,806	(6,551)
Third party collections	-	643,095
Default prevention program and other miscellaneous expense	936,158	1,250,000
Total operating expenses	<u>4,300,370</u>	<u>5,860,656</u>
<b>Operating income</b>	4,070,770	4,035,706
<b>Non-operating income (expenses)</b>		
Investment income	357,702	149,250
Bond interest expense	(2,132,817)	(2,420,706)
Recall of federal reserve funds	(6,809,901)	-
<b>Total non-operating expenses</b>	<u>(8,585,016)</u>	<u>(2,271,456)</u>
Change in net position	(4,514,246)	1,764,250
<b>Net position</b>		
Beginning of year	154,257,993	152,493,743
End of year	<u>\$ 149,743,747</u>	<u>\$ 154,257,993</u>

See Notes to Financial Statements

**South Carolina State Education Assistance Authority****Statements of Cash Flows****For the years ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b><i>Cash flows from operating activities</i></b>		
Receipts from borrowers and United States Department of Education	\$ 9,155,553	\$ 4,927,143
Receipts from South Carolina Student Loan services provided	5,392,528	5,188,385
Payments to suppliers, lenders and borrowers	(9,105,324)	(3,727,995)
Payments for personnel	(1,503,673)	(1,990,397)
Net cash provided by operating activities	<u>3,939,084</u>	<u>4,397,136</u>
<b><i>Cash flows from non-capital financing activities</i></b>		
Finance loan advances to South Carolina Student Loan Corporation for student loans	(2,819,518)	(3,226,268)
Finance loan payments received from South Carolina Student Loan Corporation	8,896,394	8,968,572
Payments on bonds payable	(5,813,044)	(5,923,044)
Interest paid on revenue bonds	(2,203,986)	(2,492,921)
Recall of federal funds	(6,809,901)	-
Net cash used for non-capital financing activities	<u>(8,750,055)</u>	<u>(2,673,661)</u>
<b><i>Cash flows from capital and related financing activities</i></b>		
Purchases of capital assets	-	(44,139)
Net cash used for capital and related financing activities	<u>-</u>	<u>(44,139)</u>
<b><i>Cash flows from investing activities</i></b>		
Interest received on investment securities	352,677	148,766
Net cash provided by investing activities	<u>352,677</u>	<u>148,766</u>
<b><i>Net increase (decrease) in cash and cash equivalents</i></b>	<b>(4,458,294)</b>	<b>1,828,102</b>
<b><i>Cash and cash equivalents</i></b>		
Beginning of year	97,054,178	95,226,076
End of year	<u>\$ 92,595,884</u>	<u>\$ 97,054,178</u>

## South Carolina State Education Assistance Authority

### Statements of Cash Flows

For the years ended June 30, 2017 and 2016

	2017	2016
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 4,070,770	\$ 4,035,706
Adjustments to reconcile operating income to net cash provided by operating activities		
Purchases of student loans due under guarantees	(29,430,394)	(63,483,822)
Payments received from United States Department of Education under federal reinsurance program	33,163,204	62,021,098
Depreciation expense	58,672	72,810
Provision for loan losses	(755,175)	(683,055)
Allowance for loan loss	6,806	(6,551)
Changes in assets and liabilities:		
Decrease (increase) in prepaids	4	(3)
Decrease in student loan receivables	1,757,037	1,822,050
Increase in interest interest due from borrower	(51,047)	(10,744)
Decrease in due from South Carolina Student Loan Corporation	71,132	72,215
Decrease in due from United States Department of Education	-	741
Increase in due from servicers	(132,801)	-
Decrease in account maintenance fee receivable	300,000	36,000
Increase (decrease) in accounts payable	110,223	(65,962)
Decrease in due to United States Department of Education	(73,458)	(20,837)
Decrease in consolidation rebate fee payable	(1,869)	(27,482)
Decrease in customer refunds payable	(39,672)	(20,488)
(Decrease) increase in unearned revenues	(4,071)	2,014
(Decrease) increase in due to South Carolina Student Loan Corporation	(5,110,277)	653,446
Net cash provided by operating activities	<u>\$ 3,939,084</u>	<u>\$ 4,397,136</u>

See Notes to Financial Statements

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2017 and 2016

---

### Note 1. Nature of Business and Significant Accounting Policies

#### Reporting entity:

The South Carolina State Education Assistance Authority (the "Authority") is a body politic and corporate and a public instrumentality of the State of South Carolina. The Authority is a part of the State of South Carolina created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976, as amended. The Authority is governed by the State Fiscal Accountability Authority ("SFAA") whose members by virtue of their position in State government include the Governor, State Treasurer, Comptroller General, Chairman of Senate Finance Committee and Chairman of South Carolina House of Representatives Ways and Means Committee.

The Authority is a discretely presented component unit of the State of South Carolina because of the common Board and its financial accountability over the Authority. The funds of the Authority are included in the Comprehensive Annual Financial Report of the State of South Carolina. The financial statements of the Authority present the financial position, results of operations and cash flows solely of the Authority and do not include any component units, organizations, or other funds of the State of South Carolina.

The Authority discharges its statutory obligations through two distinct programs. The program through which the Authority conducts its guarantee activities is herein referred to as the "Student Loan Insurance Program." The program through which the Authority finances the making of education loans by South Carolina Student Loan Corporation ("SCSLC") is herein referred to as the "Student Loan Finance Program."

The Authority was originally created in order to provide a means of making loans to students in order to enable them to attend eligible institutions, as such terms are defined in the Higher Education Act. Such loan financing has been conducted by the Authority through its Student Loan Finance Program which has, since its inception, been administered by SCSLC.

The Authority has been authorized by the State of South Carolina to issue revenue bonds for the purpose of making student loans. The Authority has approved SCSLC as an eligible lender under its program and has designated it as the private, non-profit agency to administer these loans. It is the duty of SCSLC to process applications, make student loans and collect principal, interest, fees and penalties on such loans. Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace and deferred periods by the United States Department of Education ("USDE"). Upon entering the repayment period, the interest is paid by the borrower. Special Allowance Payments ("SAP") are calculated as the difference between the amount of interest SCSLC receives from the borrower or the government and the variable amount that is provided under requirements of the Higher Education Act of 1965, as amended, which is a predefined rate for each loan type. The SAP is calculated quarterly and the net amount of the government interest less the SAP due to USDE is paid by the Authority. Principal and interest collections from the loans held as collateral under the 2009 Palmetto Assistance Loan ("PAL") General Resolution are forwarded to the bond trustee daily.

---

## South Carolina State Education Assistance Authority

### *Notes to Financial Statements*

*June 30, 2017 and 2016*

---

#### **Note 1. Nature of Business and Significant Accounting Policies, Continued**

##### Reporting entity, continued:

The operations of the Authority are administered by employees of SCSLC. The Authority reimburses SCSLC upon request for the actual operating expenses incurred in the administration of the program in accordance with a previously approved budget. All leases and property are in the name of SCSLC and the Authority pays its pro rata share based on space occupied, equipment usage, and loan servicing costs (see Note 10).

Neither the Authority nor SCSLC is considered a component unit of the other because each is a separate legal organization and not financially accountable to/for the other.

During May 1978, the Authority initiated its Student Loan Insurance Program and commenced guaranteeing Guaranteed Loans as the guaranty agency for the State of South Carolina under §428(c) of the Higher Education Act. In order to administer its Student Loan Insurance Program effectively, the Authority processes loans submitted for guarantee, issues loan guarantees, provides collection assistance for delinquent loans, pays claims for loans in default, collects payments on loans on which default claims have been paid, and makes appropriate responses to the United States Secretary of Education (the "Secretary"). The Authority is also responsible for initiating policy and performing compliance reviews as required by the Higher Education Act with respect to certain schools participating in the Student Loan Insurance Program.

As a result of the Health Care and Education Reconciliation Act of 2010 and subsequent actions taken by the federal government which nationalized the federally-guaranteed student loan program, continuing guarantor operations under the guaranty agreement between the Authority and the USDE would result in an economic loss to the Authority. Therefore on June 22, 2016, the SFAA delegated to SCSLC the authority to communicate with USDE at the appropriate time to terminate the guaranty agreements, cease operating as a guaranty agency under the Higher Education Act of 1965 and to present to the South Carolina State Treasurer all necessary documents required to effect such termination. SCSLC notified the USDE on June 22, 2016 of the intention to terminate the guaranty agreement. On July 21, 2016, SCSLC received formal notice from the USDE naming Educational Credit Management Corporation ("ECMC") as the receiving guarantor; however, initial discussion and coordination of the transfer between the parties began on July 7, 2016. Effective December 1, 2016, the Authority transferred to ECMC and ECMC accepted the transfer of all of the Authority's outstanding guarantees and its post-claim portfolio. In addition, the Authority and ECMC agreed to a sixty-month period beginning December 1, 2016 through December 1, 2021, during which the Authority will reimburse ECMC up to \$737,000 of the Default Aversion Fee previously earned from USDE which must be rebated to the USDE due to claims filed by the eligible lender during this sixty-month period. The quarterly billing of these rebates will be paid from the Agency Operating Fund.

##### Business-type activity:

The Authority is organized as an enterprise fund and further subdivided on the basis of sub-funds, each of which is considered separately for internal reporting purposes. The operation of each sub-fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2017 and 2016

---

### Note 1. Nature of Business and Significant Accounting Policies, Continued

#### Business-type activity, continued:

The Authority's sub-funds include the Collection/Prior Unpledged Fund, Eligible Lender Trust Fund, 2009 PAL General Resolution Fund, Agency Operating Fund, and the Federal Student Loan Reserve Fund. The Authority's activities include issuing revenue bonds to finance student loans, which are handled by SCSLC and guaranteeing federal loans.

The Collection/Prior Unpledged Fund collects all payments on loans on behalf of the Authority and SCSLC. Funds are transferred daily to the appropriate bond trustees or monthly to SCSLC.

The 2009 PAL General Resolution Fund constitutes pledged income for the liquidation of outstanding bonds after transfers for operations. Restricted assets of the 2009 PAL General Resolution include principal and interest funds for future debt service, a debt reserve fund equaling the greater of two percent (2%) of the outstanding bond principal or an \$850,000 minimum, a Loan Fund, a General Revenue Fund which holds collections of principal and interest from borrowers, a Department Reserve Fund and a Capitalized Interest Fund. The Trustee withdraws funds from the General Revenue Fund on approximately the 10<sup>th</sup> day of each month to make deposits into the other funds to meet required interest and operating expense obligations. Any remaining funds are deposited to the principal account.

The Eligible Lender Trust Fund maintains student loans for the Authority that were created when the bonds under the 1993 Resolution were redeemed. The Authority collects revenue from borrowers and USDE and pays the related expenses for the loans.

After termination of the guaranty agreement with the USDE effective December 1, 2016, the remaining balance of \$6,809,901 held in the Federal Student Loan Reserve Fund was returned to the USDE. Prior to the termination of the guaranty agreement, the Federal Student Loan Reserve Fund was used to account for activities as required by the 1998 reauthorization of the Higher Education Act. Amounts in the Federal Student Loan Reserve Fund could only be used to pay lender claims on defaulted loans and to disburse default aversion fees to the Agency Operating Fund for default aversion activities. Upon payment to lenders for defaulted loans, these funds were then reimbursed to the Federal Student Loan Reserve Fund by USDE at a percentage determined by the Authority's default rate. Payments to lenders for defaulted loans were recorded as Federal Reinsurance Receivables. Reimbursement by USDE reduced the Federal Reinsurance Receivable. The Authority always received the maximum reimbursement allowable under the supplemental guarantee agreement (see Note 3).



# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2017 and 2016

---

### Note 1. Nature of Business and Significant Accounting Policies, Continued

#### Business-type activity, continued:

Until December 1, 2016, the Agency Operating Fund was used to account for account maintenance fees, default aversion fees, and the retention on default collections. USDE paid all of the fees except the default aversion fees reimbursed by the Federal Student Loan Reserve Fund. The account maintenance fee was equal to 0.06% of the ending original principal balance of loans outstanding for the fiscal year with fiscal year 2017 being prorated due to the termination of the guaranty agreement effective December 1, 2016. The default aversion fee was equal to one percent of the principal and interest of a loan upon which default aversion activity was performed. This was reimbursed from the Federal Student Loan Reserve Fund. Should this loan subsequently default, the default aversion fee was refunded back to the Federal Student Loan Reserve Fund. As discussed in the *Reporting Entity* section of this note, in conjunction with the termination of the Authority's guaranty agreement, the Authority and ECMC agreed to a sixty-month period beginning December 1, 2016 through December 1, 2021, during which the Authority will reimburse ECMC up to \$737,000 of the default aversion fee previously earned from USDE which must be rebated to the USDE due to claims filed by the eligible lender during this sixty-month period. These reimbursements will be made from the Agency Operating Fund. Also prior to December 31, 2016, retention on default collections was reported by the Authority directly to USDE for services it performed in its role as guarantor. The Authority recognized income related to a specified portion (16% as of October 1, 2007; 23% from October 1, 2003 to September 30, 2007; and 24% prior to October 1, 2003) of collections adjusted for certain items made on behalf of the federal government on defaulted loans. The remaining balance of collections was remitted to the federal government. The total cumulative payments of federal reinsurance at June 30, 2017 and 2016, of all defaulted student loans purchased by the Authority is \$904,053,992 and \$874,623,598, respectively (see Note 3). The Authority reported the purchased defaulted loans to USDE monthly and retained 16% of the collections on the defaulted loans. Funds in the Agency Operating Fund can only be used for application processing, loan disbursement, enrollment and repayment status management, permitted default prevention activities, default collection activities, school and lender training, compliance monitoring and other student financial aid related activities as determined by the Secretary and for voluntary irrevocable transfers to the Federal Student Loan Reserve Fund. Except for funds transferred from the Federal Student Loan Reserve Fund for operating shortfalls, the Agency Operating Fund is considered property of the Authority. To date, no funds have been transferred from the Federal Student Loan Reserve Fund to the Agency Operating Fund for operating shortfalls. As discussed above, effective with the December 1, 2016 termination of the guaranty agreement, the remaining balance of \$6,809,901 held in the Federal Student Loan Reserve Fund was returned to the USDE.

The Bipartisan Budget Act ("BBA") (Public Law 113-67) was approved during December 2013, and included a cut in what is known as the rehabilitation retention rate for student loans effective as of July 1, 2014. Rehabilitation retention had been the largest source of revenue for guaranty agencies. Effective July 1, 2014, the BBA amended section 428F of the Higher Education Act to allow a guaranty agency, such as the Authority, to assign a loan which has met other rehabilitation criteria to USDE if the agency has been unable to sell the loan to an eligible lender. Beginning August 4, 2015, the Authority was unable to secure an eligible lender. At that time, USDE had not provided guaranty agencies the process for assigning such loans. By April 25, 2016, a USDE-designated guaranty agency was available and the Authority began assigning qualifying rehabilitation loans to them. This assignment process no longer applied as of December 1, 2016, since the Authority no longer serves as a guaranty agency.

---

## South Carolina State Education Assistance Authority

### *Notes to Financial Statements*

*June 30, 2017 and 2016*

---

#### **Note 1. Nature of Business and Significant Accounting Policies, Continued**

##### *Basis of accounting:*

The accrual basis of accounting is used for the Education Assistance Fund. Under the accrual basis of accounting, revenue is recognized when earned, and expenses are recorded when incurred. Investment income is recorded at stated interest rates with no amortization of premiums or discounts. Net increases (decreases) in the fair value of investments includes unrealized and realized gains and losses. Bond premiums and discounts are amortized/accreted over the life of the bonds and netted against interest expense. In accordance with Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority applies all GASB pronouncements and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements.

##### *Budget and budgetary accounting:*

Certain expenses for the Authority are budgeted as a management control device. However, the cost of issuing bonds, SCSLC expenses, interest expense, reinsurance and other fees and revenue are not budgeted. Accounting principles generally accepted in the United States of America do not require a comparison of budget to actual expenses.

These budgets are approved by the SCSLC Board of Directors and the South Carolina State Treasurer and are not adopted by the Legislature or printed in the Appropriations Act. The Authority is subject to State laws and regulations. Expenses in excess of the budgeted amounts are not in violation of State laws. However, these are approved by the SCSLC Board of Directors.

##### *Non-exchange transactions:*

The Authority adheres to GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, which standardizes the accounting and financial reporting for non-exchange transactions involving financial or capital resources. For the Authority, there generally are two types of non-exchange transactions: *Government-mandated non-exchange transactions* which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose; and *voluntary non-exchange transactions* which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement. The Authority recognizes non-exchange transactions when they are both measurable and probable of collection. For *Government-mandated non-exchange transactions* and *voluntary non-exchange transactions*, the Authority recognizes assets when all applicable eligibility requirements are met or resources are received, whichever is first, and revenue when all applicable eligibility requirements are met.

##### *Use of estimates:*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

---

## South Carolina State Education Assistance Authority

### *Notes to Financial Statements*

*June 30, 2017 and 2016*

---

#### **Note 1. Nature of Business and Significant Accounting Policies, Continued**

##### *Cash and cash equivalents:*

The amounts shown in the financial statements as cash and cash equivalents represent cash on deposit in banks, cash on hand with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool and cash invested in various instruments by the Bank of New York Mellon.

Because the State's internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit and collateralized repurchase agreements. Most State agencies participate in the cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities including those that are classified as restricted having a maturity at the time of purchase of three months or less.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State.

The Authority records and reports its deposits in the general deposit account at cost. The Authority reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Authority's special deposit accounts is posted to the Authority's account at the end of each month and is retained by the Authority. Interest earnings are allocated based on the percentage of the Authority's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses, and unrealized gains/losses arising from changes in fair value of investments in the pool. Realized gains and losses are allocated monthly and are included in the accumulated income receivable. Unrealized gains and losses are allocated at fiscal year-end based on the Authority's percentage ownership in the pool.

Although the State's internal cash management pool includes some long-term investments, it operates as a demand deposit account. For credit risk information pertaining to the State's internal cash management pool, see the deposits and investments disclosures in Note 2.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2017 and 2016

---

### Note 1. Nature of Business and Significant Accounting Policies, Continued

#### Federal Student Loan Reserve Fund - provision for loan losses:

The Authority must report a provision for loan losses that represents the net present value of expected future claims, net of recoveries, to be paid on guaranteed loans, less expected reimbursements of these claims. There was no loan loss provision as of June 30, 2017, since the Authority no longer serves as a guaranty agency. The loan loss provision as of June 30, 2016 was \$755,175.

#### Student loans - provision for losses:

The provision for losses on student loans represents the Authority's estimate of the costs related to the 2% to 3% risk sharing on FFELP loans. In making the estimate, the Authority considers the trend in default rates in the loan guarantee portfolio, past and anticipated loss experience, current operating information, and changes in economic conditions. The provision is based on total guaranteed loans times the 2% or 3% exposure risk rate times the default rate. However, the evaluation is inherently subjective and the provisions may significantly change in the future. The allowance for loan losses was \$11,456 and \$4,650 at June 30, 2017 and 2016, respectively.

#### Treatment of cost of issuance of bonds and amortization of bond premiums and accretion of bond discounts:

In accordance with GASB Statement No. 65, *Items Previously Recorded as Assets and Liabilities*, the cost of issuance of bonds is being expensed in the period incurred. Any bond premiums and discounts are amortized/accreted over the terms of the bonds using the straight-line method and are recorded as an addition or deduction to interest expense. The Authority did not have any deferred outflows of resources or deferred inflows of resources as of June 30, 2017 and 2016.

#### Risk management:

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is allocated a proportionate share of the insurance expense paid by SCSLC.

Premiums for worker's compensation, property insurance including capital assets, group life, fidelity bonds, and employee health insurance are paid to private insurance carriers and the Authority's coverage is subject to the limits of these policies. The expense for these items is charged to the Enterprise Fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

#### Property and equipment:

Furniture and equipment costing over \$10,000 are capitalized at cost when purchased. Depreciation has been provided using the straight-line method over useful lives of three to ten years for furniture and equipment.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2017 and 2016

---

### Note 1. Nature of Business and Significant Accounting Policies, Continued

#### Operating and non-operating revenues/expenses:

Balances classified as operating revenues and expenses are those which comprise the Authority's principle ongoing operations. Since the Authority's operations are similar to those of any other finance company, all revenues and expenses are considered operating except investment income, bond interest expense, and the recall of federal reserve funds.

#### Applying restricted or unrestricted resources:

The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

#### New accounting pronouncements:

During February 2015, the GASB approved GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs - other than quoted prices - included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. Quoted prices provided by third parties are permitted, as long as a government determines that those quoted prices are developed in accordance with the provisions of this Statement.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2017 and 2016

---

### Note 1. Nature of Business and Significant Accounting Policies, Continued

#### New accounting pronouncements (continued):

This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Authority adopted this accounting standard for the fiscal year ended June 30, 2016.

#### Reclassifications:

Certain prior fiscal year amounts have been reclassified to conform to the current fiscal year presentation. There was no effect on previously reported net position or change in net position as a result of these reclassifications.

#### Subsequent events:

These financial statements have not been updated for subsequent events after September 29, 2017, the date these financial statements were available to be issued.

## South Carolina State Education Assistance Authority

### Notes to Financial Statements

June 30, 2017 and 2016

#### Note 2. Deposits and Investments

All deposits and investments of the Authority are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain Authority deposits and investments are deposited with the Bank of New York Mellon or Wells Fargo Bank, N.A. as authorized by the State Treasurer.

The following schedule reconciles deposits and investments within the footnotes to the amounts presented on the Statements of Net Position:

	<u>2017</u>	<u>2016</u>
Statements of Net Position		
Cash and cash equivalents	\$ 89,197,909	\$ 93,778,399
Restricted assets		
Cash and cash equivalents	<u>3,397,975</u>	<u>3,275,779</u>
Total	<u>\$ 92,595,884</u>	<u>\$ 97,054,178</u>
Footnotes		
Cash at banks	\$ 24,990,592	\$ 24,457,683
Deposits - State Treasurer's cash management pool	277,292	4,446,493
Investments		
Bank repurchase agreements	67,328,000	68,149,000
Money market accounts	-	<u>1,002</u>
Total	<u>\$ 92,595,884</u>	<u>\$ 97,054,178</u>

**Deposits:** State law requires full collateralization of all State Treasury balances. The State Treasury must correct any deficiencies in collateral within seven days. At June 30, 2017 and 2016, all State Treasury bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasury's investments are insured or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasury's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

At June 30, 2017 and 2016, Wells Fargo Bank, N.A. carried a bank balance of \$2,706 and \$6,936, respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance.

At June 30, 2017 and 2016, the Bank of New York Mellon carried a bank balance of \$24,987,886 and \$24,415,431, respectively. These accounts are covered by FDIC insurance and pledged securities.

At June 30, 2017 and 2016, the State Treasurer's Office carried a bank balance at Bank of America on behalf of the Authority of \$515,928 and \$4,738,314, respectively. These accounts are covered by FDIC insurance and pledged securities.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2017 and 2016

### Note 2. Deposits and Investments, Continued

All other deposits are in the State's internal cash management pool. The value of the Authority's investment in the State's internal cash management pool is determined based on the fair value of the State's internal cash management pool's underlying portfolio. The reported amount and fair value of deposits held for the various accounts of the Authority are as follows at June 30:

	<u>2017</u>	<u>2016</u>
Collection	\$ 277,292	\$ 4,446,493

**Investments:** The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2017 and 2016, the Authority's recurring fair value measurements are bank repurchase agreements of \$67,328,000 and \$68,149,000, respectively, and are valued using quoted market prices for similar items in an active market (Level 2 inputs). Investment income on investments is recorded when earned. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on investments have been recorded. Realized gains and losses on securities transactions are recorded on the accrual basis of accounting.

The reported amount and fair value of investments held for the various accounts of the Authority are as follows at June 30:

	<u>2017</u>	<u>2016</u>
Prior unpledged fund - Bank of New York Mellon		
Bank repurchase agreements	\$ 1,280,280	\$ 1,250,836
Agency operating fund - Bank of New York Mellon		
Money market	-	975
Bank repurchase agreements	<u>66,047,720</u>	<u>65,089,164</u>
	<u>66,047,720</u>	<u>65,090,139</u>
Federal student loan reserve fund - Bank of New York Mellon		
Money market	-	27
Bank repurchase agreements	<u>-</u>	<u>1,809,000</u>
	<u>-</u>	<u>1,809,027</u>
Totals	<u>\$ 67,328,000</u>	<u>\$ 68,150,002</u>

Investments are restricted by bond indentures to direct obligations of (or obligations guaranteed by) the United States of America, interest bearing time deposits, certificates of deposit or repurchase agreements fully secured by direct obligations of the United States of America, and obligations of certain federal agencies and instrumentalities.



## South Carolina State Education Assistance Authority

### Notes to Financial Statements

June 30, 2017 and 2016

---

#### Note 2. Deposits and Investments, Continued

**Interest rate risk:** In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

**Credit risk:** The Authority adheres to the State of South Carolina's investment policy, and invests in primarily U.S. government-backed obligations. The Authority does not make any investments in equities. The State Investment Pool has federal agency and corporate obligations.

**Concentration of credit risk:** The Authority's investment policy does not allow for an investment in any one issuer that is in excess of five percent of the total investments. All investments are made pursuant to S.C. Code Section 11-9-660 which requires all investments to be investment grade by at least two credit rating agencies.

**Foreign currency risk:** The Authority has no foreign currency investments.

**Custodial credit risk:** This is the risk that the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counter party to the investment transaction fails. The investments at Bank of New York Mellon are categorized to give an indication of the level of the custodial credit risk assumed by the Authority at June 30, 2017 and 2016. All Bank of New York Mellon investments are insured or registered by the Authority or its agent in the Authority's name. There are no uninsured investments.

#### Note 3. Federal Family Education Loans (FFEL) and Federal Reinsurance of FFEL Loans

During fiscal year 2017, these loans were bearing interest at a fixed rate range of 2.870% to 10.0% or an annual variable rate of 2.65% to 3.80%. The annual variable rate is reset each July 1 using the bond equivalent rate of the 91-day or 52-week Treasury Bill, determined at the final auction held prior to the immediately preceding June 1, plus 1.70% to 3.25% with a cap on the rate of 8.25% to 12.0%. These loans are repayable over a period of five (5) to thirty (30) years with a minimum payment of \$360 or \$600 per year, except for in the case of income-based repayment plans. Repayment of principal may be scheduled to begin within sixty (60) days of final disbursement or six (6) to ten (10) months after the student graduates or ceases to be enrolled on at least a halftime basis in an eligible institution.

Certain borrowers may elect an income-based repayment plan, which can result in a payment amount less than is required to fully pay principal on the loan. After 25 years in the income-based repayment plan, any remaining debt is discharged.

Loans disbursed for the 1978-79 Academic year and subsequent years appear on SCSLC's financial statements. These loans are guaranteed by a guaranty agency and reinsured by USDE (see Note 12). Since the Authority entered into a supplemental guaranty agreement with USDE during 1978 under which the federal government reinsures the Authority for amounts paid in connection with defaulted loans, the Authority has received cumulative payments to date of \$904,053,992 and \$874,623,598 as of June 30, 2017 and 2016, respectively, of federal reinsurance.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2017 and 2016

### Note 3. Federal Family Education Loans (FFEL) and Federal Reinsurance of FFEL Loans, Continued

The percentage of the defaulted claims to be reimbursed by the federal government is dependent upon the Authority's default rate experience, as follows:

Claims Rate	Federal payment for loans made prior to October 1, 1993	Federal payment for loans made on or after October 1, 1993 and before October 1, 1998	Federal payment for loans made on or after October 1, 1998
0% up to 5%	100% of claims	98% of claims	95% of claims
5% up to 9%	100% of all claims up to 5%, and 90% of claims 5% and over	98% of all claims up to 5%, and 88% of claims 5% and over	95% of claims up to 5%, and 85% of claims 5% and over
9% and over	100% of claims up to 5%, 90% of claims 5% and over up to 9%, and 80% of claims 9% and over	98% of claims up to 5%, 88% of claims 5% and over up to 9%, and 78% of claims 9% and over	95% of claims up to 5%, 85% of claims 5% and over up to 9%, and 75% of claims 9% and over

The calculation of the default rate is based upon the claims paid in a given year as of the federal government's fiscal year ending September 30 to the total loans in collection on the previous October 1. Based upon data maintained by the Authority, the default rate for the periods ended September 30, 2016 and 2015, was approximately 2.0% and 0.7%, respectively.

The Consolidated Appropriations Act (ACT), 2016, Pub. L. 114-113, signed by the President on December 18, 2015, changed the maximum reinsurance percentage for guaranty agencies participating in the FFEL program. Prior to this time, the USDE reimbursed guaranty agencies 95% of the amount they pay lenders on default claims with reductions to 85% and 75% if the agency's default payment rate hit certain trigger figures. The Act changes the 95% reinsurance rate to 100%. The Authority in its capacity as the guaranty agency started requesting reinsurance at the 100% rate effective December 1, 2015. Effective December 1, 2016, the Authority terminated its guaranty agreement with the USDE and transferred all of its outstanding guarantees and post-claim portfolio to ECMC. Therefore, the Authority will not process any defaulted claims under the FFEL program after November 30, 2016 (see Note 1).

### Note 4. Receivables - Finance Loans

Each bond resolution of the Authority requires that all funds advanced to SCSLC by the Authority for the purpose of making student loans be evidenced by a loan agreement, assignment of collateral and assignment of revenues between the two parties, with the student loans providing security to the bond trustee. Increases (decreases) to SCSLC representing loan advances and loan payments from the Authority's 2009 PAL General Resolution are made pursuant to a loan agreement dated October 29, 2009, and further detailed on the Statements of Cash Flows of the financial statements. Each loan is calculated as set forth in the respective loan agreements. The finance loans as of June 30, 2017 and 2016, are as follows:

Bond Resolution	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
2009	\$ 54,220,954	\$ 3,226,268	\$ (8,968,572)	\$ 48,478,650	\$ 2,819,518	\$ (8,896,394)	\$ 42,401,774

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2017 and 2016

### Note 5. Amounts Due from/to SCSLC

The Authority owes SCSLC for funds collected on their behalf of \$797,900 and \$5,908,177 as of June 30, 2017 and 2016, respectively. Funds collected on behalf of SCSLC are required to be paid to SCSLC either daily or by the tenth of each month as required by the various bond documents. As of June 30, 2017 and 2016, SCSLC owes the Authority \$484,036 and \$555,205, respectively, for interest on the 2009 PAL General Resolution bonds. During the fiscal year ended June 30, 2011, the Authority transferred unencumbered FFELP loans of the Authority in the amount of \$39,835,008 to SCSLC and SCSLC also contributed unencumbered loans of \$20,942,464 to provide additional equity to SCSLC's 2010 bond offering by increasing the parity of the bonds. The funds from both SCSLC and the Authority were provided through a Residual Trust Agreement which allows for all remaining loans of the Trust to be shared between SCSLC and the Authority on a prorata basis based on the percentage contribution made by each entity once all bonds have been redeemed.

### Note 6. Property and Equipment

The following is a summary of changes in property and equipment for the fiscal years ended June 30, 2017 and 2016:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Cost							
Furniture and equipment	\$ 645,834	\$ 44,139	\$ (55,613)	\$ 634,360	\$ -	\$ -	\$ 634,360
Total	645,834	44,139	(55,613)	634,360	-	-	634,360
Accumulated depreciation							
Furniture and equipment	(523,899)	(72,810)	55,613	(541,096)	(58,672)	-	(599,768)
Less accumulated depreciation	(523,899)	(72,810)	55,613	(541,096)	(58,672)	-	(599,768)
Net, property and equipment	\$ 121,935	\$ (28,671)	\$ -	\$ 93,264	\$ (58,672)	\$ -	\$ 34,592

### Note 7. Loan Guarantees

As an incentive for the states to set up state guaranty agencies, USDE made certain funds available to the states to assist in establishing a Federal Student Loan Reserve Fund which replaced the loan guarantee account by the 1998 Reauthorization of the Higher Education Act on July 1, 1998. Maintenance of the Federal Student Loan Reserve Fund depended upon possible further federal and state advances, investment income, and reinsurance payments from USDE. USDE reserved the right to request repayment of advances under the Advance Agreement within such period as is deemed appropriate in light of the maturity and solvency of the Authority's Federal Student Loan Reserve Fund. As of June 30, 2017 and 2016, the Authority has reimbursed all such advances to USDE that they had previously requested.

## South Carolina State Education Assistance Authority

### Notes to Financial Statements

June 30, 2017 and 2016

#### Note 7. Loan Guarantees, Continued

The 1993 Amendments to the Higher Education Act, Section 422 of the Higher Education Act of 1965 (the "Act"), as amended, provides that the Federal Student Loan Reserve Fund of all guaranty agencies under the Act shall be considered the property of the United States to be used in connection with the Federal Family Education Loan Programs and Consolidation Loan Programs under Parts B and C of Title IV of the Act. The Act further provides that the Secretary may direct a guaranty agency to return to the Secretary a portion of its Federal Student Loan Reserve Fund which the Secretary determines is unnecessary to pay the program expenses and contingent liabilities of the guaranty agency. As discussed in Note 1, after termination of the guaranty agreement with the USDE effective December 1, 2016, the remaining balance of \$6,809,901 held in the Federal Student Loan Reserve Fund was returned to the USDE during fiscal year 2017.

Effective July 1, 1998, the Act allowed a new fund called the Agency Operating Fund to be established. As described in Note 1, this fund accumulates funds to operate the guaranty agency.

#### Note 8. Bonds and Other Payables and Restricted Assets

The Authority issues Guaranteed Student Loan Revenue Bonds or Education Loan Revenue Bonds as needed to make finance loans to SCSLC for the purpose of making student loans (See Note 4). The finance loans to SCSLC are secured by loans funded by bond proceeds, related revenue from such loans, investments in accounts and earnings thereon. Loan proceeds from borrower payments are forwarded daily to the trustee to pay principal, interest and other bond related expenses when due. The bonds do not constitute a debt, liability or obligation of the State of South Carolina or a pledge of the faith and credit of the State of South Carolina. As of June 30, 2017 and 2016, the Authority was required to have assets deposited in the current debt service account of \$484,036 and \$555,205, respectively. The Authority has deposits in restricted assets equal to the current debt service requirement for the years ended June 30, 2017 and 2016. Restricted assets of \$3,397,975 as of June 30, 2017 and \$3,275,779 as of June 30, 2016 include the current debt service reserve deposits of \$850,000 and \$907,770 as of June 30, 2017 and 2016, respectively.

On November 5, 2009, the Authority issued \$85,000,000 of fixed rate Student Loan Revenue bonds with maturity dates ranging from October 1, 2014 through October 1, 2029 and interest rates ranging from 3.4% to 5.1%. The Student Loan Revenue bonds including outstanding principal, original issuer's discount and net outstanding balance as of June 30, 2017 and 2016 are as follows:

Balance as of June 30, 2015	Increases	Decreases	Balance as of June 30, 2016	Increases	Decreases	Balance as of June 30, 2017
\$ 51,370,000	\$ -	\$ (5,985,000)	\$ 45,385,000	\$ -	\$ (5,875,000)	\$ 39,510,000
(619,560)	-	61,956	(557,604)	-	61,956	(495,648)
<u>\$ 50,750,440</u>	<u>\$ -</u>	<u>\$ (5,923,044)</u>	<u>\$ 44,827,396</u>	<u>\$ -</u>	<u>\$ (5,813,044)</u>	<u>\$ 39,014,352</u>

## South Carolina State Education Assistance Authority

### Notes to Financial Statements

June 30, 2017 and 2016

#### Note 8. Bonds and Other Payables and Restricted Assets, Continued

The annual requirements to retire these bonds as of June 30, 2017, are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,185,000	\$ 1,937,502	\$ 3,122,502
2019	1,430,000	1,880,074	3,310,074
2020	1,895,000	1,804,467	3,699,467
2021	2,020,000	1,713,652	3,733,652
2022	2,850,000	1,599,725	4,449,725
2023	3,805,000	1,442,244	5,247,244
2024	-	1,351,585	1,351,585
2025	9,505,000	1,110,660	10,615,660
2026	-	869,734	869,734
2027	-	869,734	869,734
2028	-	869,734	869,734
2029	-	869,734	869,734
2030	<u>16,820,000</u>	<u>434,867</u>	<u>17,254,867</u>
	<u>\$ 39,510,000</u>	<u>\$ 16,753,712</u>	<u>\$ 56,263,712</u>

#### Note 9. Paul Douglas Teacher Scholarship Program

The Authority administers the Paul Douglas Teacher Scholarship Program (formerly the Congressional Teacher Scholarship Program). This is a federally funded scholarship program designed to attract high school students and encourage them to enter the field of teaching. As of June 30, 1995, the federal government suspended the loan program and the Authority will reimburse all funds collected for the program.

During the fiscal years ended June 30, 2017 and 2016, collections were \$478 and \$2,160, respectively, from repayments by participants. The Authority forwarded these amounts to the federal government during the fiscal years ended June 30, 2017 and 2016, due to suspension of the program. Any repayments not forwarded to the federal government are recorded as a liability.

#### Note 10. Related Party Transactions

The Authority has significant transactions with the State of South Carolina and SCSLC. Services received at no cost from State agencies include maintenance of certain accounting records from the Comptroller General, investment and banking functions from the State Treasurer and legal services as requested from the Attorney General.

For the fiscal years ended June 30, 2017 and 2016, the Authority paid the University of South Carolina for data processing services and the expense is recorded as contractual expenses. See Notes 1, 4 and 5 regarding transactions with SCSLC.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2017 and 2016

### Note 11. Employee Benefit Plans

Effective August 1, 2015, SCSLC changed the Trustee for its benefit plans from BB&T to USI Consulting Group Inc. This change included the South Carolina Student Loan Corporation Money Purchase Pension Plan, the South Carolina Student Loan Corporation Defined Benefit Plan, the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan, the South Carolina Student Loan Corporation Tax Deferred Annuity Group Supplemental Retirement Annuity ("TDA GSRA") and the South Carolina Student Loan Corporation 457(b) Deferred Compensation Plan. However, any contributions to the TDA GSRA prior to July 1, 2015, remain in that plan with the prior trustee, TIAA CREF, until paid out to the participant under the terms of a release or transferred to another qualified plan as directed by the participant and allowed by the annuity terms.

#### Money Purchase Pension Plan:

The Authority provides retirement benefits through the South Carolina Student Loan Corporation Money Purchase Pension Plan ("MPPP") for all employees who have completed one year of service and attained age 21. The MPPP was originally established on July 1, 1975. The authority under which benefits provisions are established or amended is provided in the plan document as administrated by the plan trustee. The plan issues a stand-alone report annually and may be obtained by writing to South Carolina Student Loan Corporation, Post Office Box 102405 Columbia, South Carolina 29224.

This is a defined contribution plan in which the employer contributes 5.6% of the participant's total annual compensation plus 5.6% of compensation exceeding the social security wage base. Contributions are made monthly. A participant is 20% vested after two years of service and 100% vested after six years of service. A participant reaches normal retirement at age sixty-five. At termination of employment or reaching normal retirement age, the participant has the right to elect to receive all or any portion of his vested benefit derived from employer contributions. Voluntary contributions are not permitted. Under the plan, the portion of an employee's account that has not vested when an employee terminates, called forfeitures, reduces the employer's contribution in the year following the plan year in which the forfeiture occurs. The total pension expense is fully funded and is included in personnel expenses under the retirement category. Contributions within the plan are employee self-directed. The MPPP experienced a partial termination on August 18, 2016 due to a reduction in workforce at SCSLC. All contributions to the MPPP for the affected employees were immediately 100% vested.

Pension expense, total salary and covered salary are as follows for the fiscal years ended June 30:

	<u>2017</u>	<u>2016</u>
Total salary	\$ 1,087,588	\$ 1,141,160
Total covered salary	658,154	998,250
Pension expense (actual and required)	71,066	57,818
Pension contributions	64,902	52,626
Percent of pension expense to covered salary	10.80%	5.79%

## South Carolina State Education Assistance Authority

### *Notes to Financial Statements*

*June 30, 2017 and 2016*

---

#### **Note 11. Employee Benefit Plans, Continued**

##### **Defined Benefit Plan:**

The Authority participates in a supplemental retirement plan, the South Carolina Student Loan Corporation Defined Benefit Plan ("DBP"), a single employer plan. The authority under which benefit provisions are established or amended is provided in the plan document as administered by the plan trustee. The plan is a defined benefit pension plan covering substantially all employees with one year of service and 21 years of age. The DBP provides benefits based on the average of the five highest consecutive years' pay of each eligible employee multiplied by the number of years of service not to exceed 30 years. SCSLC's funding policy is to make at least the minimum annual contribution that is actuarially computed by the projected unit credit method required by this plan. The Authority will contribute the amount billed to them by SCSLC. The DBP experienced a partial termination on August 18, 2016, due to a reduction in workforce at SCSLC. All contributions to the DBP for the affected employees were immediately 100% vested. SCSLC issues a publicly available financial report that includes financial statements and required supplementary information for the DBP. That report may be obtained by writing to South Carolina Student Loan Corporation, Post Office Box 102405, Columbia, South Carolina 29224.

The Authority paid contributions for the fiscal year ended June 30, 2017, of \$80,913. The Authority paid contributions for the fiscal year ended June 30, 2016, of \$107,800 and realized a loss on the assets of the plan of \$393,591. The actual funding contributions represented 12.3% and 10.80% of covered salary, respectively. Contributions are included in the personnel expense category.

##### **403(b) Defined Contribution Plan:**

Effective July 1, 2015, SCSLC consolidated the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan and the TDA GSRA into a single plan known as the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan (the "403(b) DC Plan"). The 403(b) DC Plan continues to offer the same provisions as the previous separate plans, but is now administered under one plan for both the non-elective and pre-tax deferral contribution types.

Prior to the consolidation as established on November 5, 2002, the 403(b) DC Plan provided for the non-elective type of contribution. The 403(b) DC Plan continues to provide for a 5% contribution based on the participant's total annual compensation. The total amount contributed under the plan was \$55,098 and \$63,539 during the fiscal years ended June 30, 2017 and 2016, respectively. All employees who have completed one year of service and attainment of age 21 are eligible to receive employer contributions. Contributions are 100% vested immediately with investment of the contributions within the plan being employee self-directed.

Established on January 1, 1995, and subsequently amended on January 1, 2009, the South Carolina Student Loan Corporation TDA GSRA provided the pre-tax deferral (elective) type of contribution. As a part of the 403(b) DC Plan beginning July 1, 2015, employees continue to be eligible to participate in the elective portion of the 403(b) DC Plan upon hire. Employee participation in this plan is voluntary and funded only through employee contributions. Employee contributions are 100% vested immediately with investment of the contributions within the plan being employee self-directed.

---

## **South Carolina State Education Assistance Authority**

### ***Notes to Financial Statements***

***June 30, 2017 and 2016***

---

#### **Note 11. Employee Benefit Plans, Continued**

##### **457(b) Deferred Compensation Plan:**

On November 15, 2002, SCSLC established the South Carolina Student Loan Corporation 457(b) Deferred Compensation Plan. Key management employees of SCSLC are eligible to participate in this plan. Employee participation in this plan is voluntary and funded only through employee contributions. Employee contributions are 100% vested immediately with investment of the contributions within the plan being employee self-directed.

##### **Other Employee Benefits**

Certain health care, dental, long-term disability and life insurance benefits are provided to active employees through various private insurers. Employees scheduled for 30 hours or more per week may be eligible to receive these benefits. Employer contributions applicable to those benefits were \$117,015 and \$117,802 for the fiscal years ended June 30, 2017 and 2016, respectively, and are recorded as expenses under the personnel expense category, and are paid monthly as billed by insurers.

#### **Note 12. Student Loan Guarantees**

The total outstanding balance of student loans that the Authority had under guarantee at June 30, 2016 was \$1,733,613,091. As discussed in Note 1, the Authority's Guaranty Agreement with the USDE was terminated effective December 1, 2016, and all the outstanding guarantees were transferred to ECMC.

#### **Note 13. Rebate and Excess Earnings Liability**

The Internal Revenue Code ("IRC") and arbitrage regulations issued by the Internal Revenue Service require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. Regulations also exist for calculating rebate earnings in connection with the accounting for bond proceeds, refunding issues, and proceeds that are commingled with other funds for investment purposes. Rebates are payable every five years from date of bond issue or upon maturity of the bonds, whichever is earlier.

The IRC and U.S. Treasury Regulations permit issuers of qualified student loan tax-exempt obligations to earn no more than 1.5% to 2.0% above the bond yield on the qualified student loans financed with such tax-exempt obligations. For excess earnings on qualified student loans, issuers may elect to pay such excess to the U. S. Treasury or return such excess to the borrowers of qualified student loans financed by the tax-exempt obligations. The South Carolina State Treasurer had computations performed to determine the liability at June 30, 2017 and 2016. Based on those results, the Authority incurred no expense or income for the fiscal years ended June 30, 2017 and 2016. This expense (income) is determined using the "Future Value" method of determining rebate and excess earnings liability, as set forth in the U.S. Treasury Regulations and is based on cash flows created by investment, sale, maturity of and earnings on gross bond proceeds. As of June 30, 2017 and 2016, the Authority reported no rebate and excess earnings liability.



## South Carolina State Education Assistance Authority

### Notes to Financial Statements

June 30, 2017 and 2016

#### Note 14. Required Information on Business-Type Activity for State of South Carolina

The Authority is a major enterprise fund which is not required to present government-wide financial statements. However, the State of South Carolina requires business-type activities for the State's government-wide Statement of Activities. The required information is as follows for the fiscal years ended June 30:

	<u>2017</u>	<u>2016</u>
Charges for services		
United States Department of Education		
Account maintenance fee	\$ 477,447	\$ 1,250,160
Default aversion fee income	267,269	161,801
Retention on default collections (net of payments to federal government of \$2,312,890 in 2017 and \$8,007,771 in 2016)	3,529,545	4,573,697
Income from South Carolina Student Loan Corporation		
Subsidized interest	65,231	101,912
Special allowance	(678,205)	(828,140)
Non-subsidized interest	1,208,628	1,298,919
Late charges	8,149	10,975
Miscellaneous payments of student loans	26	(5)
Reimbursement of bond expense	2,653,929	2,911,633
Reinsurance recoveries	<u>839,121</u>	<u>415,410</u>
Total charges for services	<u>8,371,140</u>	<u>9,896,362</u>
Operating grants and contributions		
Investment income	<u>357,702</u>	<u>149,250</u>
Total operating grants and contributions	<u>357,702</u>	<u>149,250</u>
Total program revenue	8,728,842	10,045,612
Less expenses	<u>13,243,088</u>	<u>8,281,362</u>
Change in net position	(4,514,246)	1,764,250
Net position		
Beginning	<u>154,257,993</u>	<u>152,493,743</u>
Ending	<u>\$ 149,743,747</u>	<u>\$ 154,257,993</u>

**South Carolina State Education Assistance Authority**  
**Schedule of Net Position by Fund**  
**June 30, 2017**

	Collection/ Prior Unpledged Fund	2009 PAL Resolution Fund	Eligible Lender Trust Fund	Agency Operating Fund	Federal Student Loan Reserve Fund	Total
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 1,560,279	\$ 893,476	\$ 20,695,576	\$ 66,048,578	\$ -	\$ 89,197,909
Cash and cash equivalents - restricted	-	3,397,975	-	-	-	3,397,975
Receivables						
Current portion of student loans	-	-	1,966,202	-	-	1,966,202
Current portion of finance loans	-	5,027,638	-	-	-	5,027,638
Interest due from borrower	-	-	473,296	-	-	473,296
Due from South Carolina Student Loan Corporation	-	484,073	-	-	-	484,073
Due from servicers	-	129,718	3,083	-	-	132,801
Accrued interest receivable	108	-	-	5,615	-	5,723
Due from (to) other funds	(4,971)	4,971	-	-	-	-
Prepays	-	5,332	-	-	-	5,332
Total current assets	<u>1,555,416</u>	<u>9,943,183</u>	<u>23,138,157</u>	<u>66,054,193</u>	<u>-</u>	<u>100,690,949</u>
<b>Long-term and other assets</b>						
Receivables						
Student loans, less current portion and net of allowance for loan loss of \$11,456	-	-	17,240,847	-	-	17,240,847
Finance loans, less current portion	-	37,374,136	-	-	-	37,374,136
Due from South Carolina Student Loan Corporation	-	-	39,835,008	-	-	39,835,008
Total long-term and other assets	<u>-</u>	<u>37,374,136</u>	<u>57,075,855</u>	<u>-</u>	<u>-</u>	<u>94,449,991</u>
<b>Property and equipment</b>						
Furniture and equipment	-	-	-	634,360	-	634,360
Less: accumulated depreciation	-	-	-	(599,768)	-	(599,768)
Total property and equipment, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,592</u>	<u>-</u>	<u>34,592</u>
Total assets	<u>\$ 1,555,416</u>	<u>\$ 47,317,319</u>	<u>\$ 80,214,012</u>	<u>\$ 66,088,785</u>	<u>\$ -</u>	<u>\$ 195,175,532</u>

**South Carolina State Education Assistance Authority**  
**Schedule of Net Position by Fund**  
**June 30, 2017**

	Collection/ Prior Unpledged Fund	2009 PAL Resolution Fund	Eligible Lender Trust Fund	Agency Operating Fund	Federal Student Loan Reserve Fund	Total
<b>Liabilities</b>						
Current Liabilities						
Accounts payable	\$ -	\$ 2,800	\$ -	\$ 4,953,541	\$ -	\$ 4,956,341
Due to South Carolina Student Loan Corporation	264,456	522,297	11,147	-	-	797,900
Due to United States Department of Education	-	23,810	144,774	-	-	168,584
Customer refunds payable	7,672	-	-	-	-	7,672
Unearned revenue	2,900	-	-	-	-	2,900
Payable from restricted assets						
Current portion of bonds payable	-	1,185,000	-	-	-	1,185,000
Accrued bond interest payable	-	484,036	-	-	-	484,036
Total current liabilities	<u>275,028</u>	<u>2,217,943</u>	<u>155,921</u>	<u>4,953,541</u>	<u>-</u>	<u>7,602,433</u>
<b>Long-term liabilities</b>						
Bonds payable, less current maturities	-	37,829,352	-	-	-	37,829,352
Total long-term liabilities	<u>-</u>	<u>37,829,352</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,829,352</u>
Total liabilities	<u>\$ 275,028</u>	<u>\$ 40,047,295</u>	<u>\$ 155,921</u>	<u>\$ 4,953,541</u>	<u>\$ -</u>	<u>\$ 45,431,785</u>
<b>Net Position</b>						
Net investment in capital assets	-	-	-	34,592	-	34,592
Restricted for:						
Debt service						
Bond indentures - 2009 resolution	-	7,270,024	-	-	-	7,270,024
Other						
Guaranty agency operating account	-	-	-	61,100,652	-	61,100,652
Unrestricted	1,280,388	-	80,058,091	-	-	81,338,479
Total net position	<u>\$ 1,280,388</u>	<u>\$ 7,270,024</u>	<u>\$ 80,058,091</u>	<u>\$ 61,135,244</u>	<u>\$ -</u>	<u>\$ 149,743,747</u>

**South Carolina State Education Assistance Authority**  
**Schedule of Revenues, Expenses and Changes in Net Position by Fund**  
**For the year ended June 30, 2017**

	Collection/ Prior Unpledged Fund	2009 PAL Resolution Fund	Eligible Lender Trust Fund	Agency Operating Fund	Federal Student Loan Reserve Fund	Total
<b>Operating revenues</b>						
United States Department of Education						
Account maintenance fee	\$ -	\$ -	\$ -	\$ 477,447	\$ -	\$ 477,447
Default aversion fee income	-	-	-	-	267,269	267,269
Retention on default collections	-	-	-	3,529,545	-	3,529,545
Income from South Carolina Student Loan Corporation						
Subsidized interest	-	-	65,231	-	-	65,231
Special allowance	-	-	(678,205)	-	-	(678,205)
Non-subsidized interest	-	-	1,208,628	-	-	1,208,628
Late charges	-	-	8,149	-	-	8,149
Miscellaneous payments of student loans	-	-	26	-	-	26
Reimbursement of bond expense	-	2,653,929	-	-	-	2,653,929
Reinsurance recoveries	-	-	-	-	839,121	839,121
Total operating revenues	-	2,653,929	603,829	4,006,992	1,106,390	8,371,140
<b>Operating expenses</b>						
Personnel	-	-	-	1,503,673	-	1,503,673
Contractual services	-	-	-	104,978	-	104,978
General operating	-	-	-	242,886	-	242,886
South Carolina Student Loan Corporation for operations	-	334,114	139,913	-	-	474,027
Default aversion fee	-	-	-	497,639	-	497,639
Loan fees	-	179,527	215,905	-	-	395,432
Borrower incentives	-	-	108,746	-	-	108,746
Broker/dealer fees	-	23,803	2,500	-	-	26,303
Reinsurance expense	-	-	3,722	-	-	3,722
Loan loss reserve	-	-	6,806	-	-	6,806
Default prevention program and other miscellaneous expense	-	-	-	936,158	-	936,158
Total operating expenses	-	537,444	477,592	3,285,334	-	4,300,370
<b>Operating income</b>	-	2,116,485	126,237	721,658	1,106,390	4,070,770
<b>Non-operating income (expenses)</b>						
Investment income	29,540	1,227	11,905	297,106	17,924	357,702
Bond interest expense	-	(2,132,817)	-	-	-	(2,132,817)
Recall of federal reserve funds	-	-	-	-	(6,809,901)	(6,809,901)
<b>Total non-operating income (expenses)</b>	29,540	(2,131,590)	11,905	297,106	(6,791,977)	(8,585,016)
<b>Change in net position</b>	29,540	(15,105)	138,142	1,018,764	(5,685,587)	(4,514,246)
Net position						
Beginning of year	1,250,848	7,285,129	79,919,949	60,116,480	5,685,587	154,257,993
End of year	\$ 1,280,388	\$ 7,270,024	\$ 80,058,091	\$ 61,135,244	\$ -	\$ 149,743,747

**South Carolina State Education Assistance Authority**  
**Schedule of Cash Flows by Fund**  
**For the year ended June 30, 2017**

	Collection/ Prior Unpledged Fund	2009 PAL Resolution Fund	Eligible Lender Trust Fund	Agency Operating Fund	Federal Student Loan Reserve Fund	Total
<b>Cash flows from operating activities</b>						
Receipts from borrowers and United States Department of Education	\$ (4,071)	\$ -	\$ -	\$ 4,320,424	\$ 4,839,200	\$ 9,155,553
Receipts from South Carolina Student Loan services provided	-	2,656,311	2,736,217	-	-	5,392,528
Payments to suppliers, lenders and borrowers	(4,169,357)	(629,760)	(525,232)	(2,192,485)	(1,588,490)	(9,105,324)
Payments for personnel	-	-	-	(1,503,673)	-	(1,503,673)
Net cash provided by (used for) operating activities	(4,173,428)	2,026,551	2,210,985	624,266	3,250,710	3,939,084
<b>Cash flows from non-capital financing activities</b>						
Finance loan advances to South Carolina Student Loan Corporation for student loans	-	(2,819,518)	-	-	-	(2,819,518)
Finance loan payments received from South Carolina Student Loan Corporation	-	8,896,394	-	-	-	8,896,394
Payments on bonds payable	-	(5,813,044)	-	-	-	(5,813,044)
Interest paid on revenue bonds	-	(2,203,986)	-	-	-	(2,203,986)
Recall of federal funds	-	-	-	-	(6,809,901)	(6,809,901)
Net cash used for non-capital financing activities	-	(1,940,154)	-	-	(6,809,901)	(8,750,055)
<b>Cash flows from investing activities</b>						
Interest received on investment securities	29,442	1,227	11,905	292,160	17,943	352,677
Net cash provided by investing activities	29,442	1,227	11,905	292,160	17,943	352,677
<b>Net increase (decrease) in cash and cash equivalents</b>	(4,143,986)	87,624	2,222,890	916,426	(3,541,248)	(4,458,294)
<b>Cash and cash equivalents</b>						
Beginning of year	5,704,265	4,203,827	18,472,686	65,132,152	3,541,248	97,054,178
End of year	\$ 1,560,279	\$ 4,291,451	\$ 20,695,576	\$ 66,048,578	\$ -	\$ 92,595,884

**South Carolina State Education Assistance Authority**  
**Schedule of Cash Flows by Fund**  
**For the year ended June 30, 2017**

	Collection/ Prior Unpledged Fund	2009 PAL Resolution Fund	Eligible Lender Trust Fund	Agency Operating Fund	Federal Student Loan Reserve Fund	Total
<b>Reconciliation of operating income to net cash provided by (used for) operating activities</b>						
Operating income	\$ -	\$ 2,116,485	\$ 126,237	\$ 721,658	\$ 1,106,390	\$ 4,070,770
Adjustments to reconcile operating income to net cash provided by (used for) operating activities						
Purchases of student loans under loan guarantees	-	-	-	-	(29,430,394)	(29,430,394)
Payments received from United States Department of Education under federal reinsurance program	-	-	-	-	33,163,204	33,163,204
Depreciation expense	-	-	-	58,672	-	58,672
Provision for loan losses	-	-	-	-	(755,175)	(755,175)
Allowance for loan loss	-	-	6,806	-	-	6,806
Changes in assets and liabilities						
Decrease in prepaids	-	4	-	-	-	4
Decrease in student loan receivables	-	-	1,757,037	-	-	1,757,037
Increase in interest due from borrower	-	-	(51,047)	-	-	(51,047)
Decrease in due from South Carolina Student Loan Corporation	-	71,132	-	-	-	71,132
Increase in due from servicers	-	(129,718)	(3,083)	-	-	(132,801)
Decrease in account maintenance fee receivable	-	-	-	300,000	-	300,000
(Increase) decrease in due from (to) other funds	(395,947)	60,968	422,675	13,432	(101,128)	-
Increase (decrease) in accounts payable	(34,596)	-	-	144,819	-	110,223
Decrease in due to United States Department of Education	-	(26,836)	(46,622)	-	-	(73,458)
Decrease in consolidation rebate fee payable	(1,869)	-	-	-	-	(1,869)
Decrease in customer refunds payable	(39,672)	-	-	-	-	(39,672)
Decrease in unearned revenues	(4,071)	-	-	-	-	(4,071)
Decrease in due to South Carolina Student Loan Corporation	(3,697,273)	(65,484)	(1,018)	(614,315)	(732,187)	(5,110,277)
Net cash provided by (used for) operating activities	<u>\$ (4,173,428)</u>	<u>\$ 2,026,551</u>	<u>\$ 2,210,985</u>	<u>\$ 624,266</u>	<u>\$ 3,250,710</u>	<u>\$ 3,939,084</u>

**South Carolina State Education Assistance Authority**  
**Schedule of Operating Expenses Compared to Budget**  
**For the year ended June 30, 2017**

	<b>Budget</b>	<b>Actual</b>	<b>Variance (Over) Under</b>
<b>Operating Expenses</b>			
<b>Personnel</b>			
Staff salaries	\$ 2,204,100	\$ 1,087,588	\$ 1,116,512
Social security	168,600	69,736	98,864
Group insurance	281,100	117,015	164,085
Retirement	426,600	228,334	198,266
Unemployment	6,600	1,000	5,600
Total personnel	3,087,000	1,503,673	1,583,327
<b>Contractual</b>			
Information Technology	225,500	62,895	162,605
Legal	2,400	5,640	(3,240)
Accounting	32,600	31,531	1,069
Credit bureau fees	3,700	2,343	1,357
Skip tracing	15,100	1,322	13,778
Enrollment verification	3,900	1,247	2,653
Total contractual	283,200	104,978	178,222
<b>General operating</b>			
Rent	77,760	38,880	38,880
Telephone	55,500	19,949	35,551
Printing	37,400	12,846	24,554
Postage	246,000	55,891	190,109
Supplies	23,000	5,294	17,706
Travel	500	-	500
Equipment maintenance	53,400	23,181	30,219
Subscriptions and fees	3,100	3,100	-
Insurance - general and automotive	25,100	25,073	27
Other expenses	585,000	-	585,000
Depreciation expense	58,700	58,672	28
Total general operating	\$ 1,165,460	\$ 242,886	\$ 922,574
<b>Budgeted operating expenses</b>			
Total personnel		\$ 1,503,673	
Total contractual		104,978	
Total general operating		242,886	
Total budgeted operating expenses		1,851,537	
<b>South Carolina Student Loan Corporation operating costs</b>		474,027	
<b>Default prevention program and other miscellaneous expense</b>		936,158	
<b>Non-budgeted operating expenses</b>			
Default aversion fee expense		497,639	
Loan fees		395,432	
Borrower incentives		108,746	
Broker/dealer fees		26,303	
Reinsurance expense		3,722	
Loan loss reserve		6,806	
Total non-budgeted operating expenses		1,038,648	
Total operating expenses		4,300,370	
<b>Non-budgeted non-operating expenses</b>			
Recall of federal reserve funds		6,809,901	
Bond interest expense		2,132,817	
Total non-budgeted non-operating expenses		8,942,718	
Total operating and other expenses		\$ 13,243,088	

---

## South Carolina State Education Assistance Authority

### *Schedule of Organizational Data*

*For the year ended June 30, 2017*

---

#### CREATION

Created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the 1976 Code (the "Act"). The Constitutionality of the Act was sustained in Durham vs. McLeod, 259 S.C. 409, 192 E. 2d 202, appeal dismissed 413 U.S. 902.

To make, insure and guarantee student loans; to acquire contingent interest in student loans from eligible banks or other lending institutions (up to 100% of the face amount thereof); to develop and administer all programs and to perform all functions necessary or convenient to promote and facilitate the making, guaranteeing and insuring of student loans and to provide such other student loan assistance and services as the Authority shall deem necessary or desirable and to enable it to qualify for loans, grants, insurance and other benefits and assistance under any program of the United States now or hereafter authorized fostering student loans; to appoint one or more banking institutions as its fiscal agent to perform such functions with respect to student loans and its revenue bonds; to approve as eligible, institutions otherwise qualified as such.

#### MEMBERS OF THE AUTHORITY

<u>Name</u>	<u>Office Held</u>
Henry D. McMaster	Governor of South Carolina
Curtis M. Loftis, Jr.	State Treasurer of South Carolina
Richard Eckstrom	Comptroller General of South Carolina
Hugh K. Leatherman, Sr.	Chairman, South Carolina Senate Finance Committee
W. Brian White	Chairman, South Carolina House of Representatives Ways and Means Committee



# South Carolina State Education Assistance Authority

## Schedule of Expenditures of Federal Awards

For the year ended June 30, 2017

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education Programs		
Federal Family Education Loan Program - Guaranty Agencies		
Direct		
Account maintenance fee	84.032	\$ 477,447
Retention on default collections	84.032	3,529,545
Passed through South Carolina Student Loan Corporation		
Subsidized interest	84.032	<u>65,231</u>
Total Federal Family Education Loan Program		<u>4,072,223</u>
Total Department of Education		<u>\$ 4,072,223</u>

### Notes to the Schedule of Expenditures of Federal Awards

Summary of Significant Accounting Policies: This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The financial activity shown in this schedule reflects amounts recorded by the Authority during its fiscal year ended June 30, 2017.

#### CFDA #84.032:

1. Special allowances and subsidized interest are earned based on outstanding balance. The account maintenance fee is based on average principal outstanding for the fiscal year for loans serviced, subject to a cap.
2. The Authority received \$33,163,204 during the fiscal year ended June 30, 2017, under Federal Reinsurance Agreements pursuant to Sections 428A and 428(c) of the Higher Education Act of 1965, as amended.
3. The total cumulative payments of federal reinsurance at June 30, 2017, since inception, of all defaulted student loans which the Authority has purchased under Federal Reinsurance Agreements was \$904,053,992. Retention of default collections is generated when the Authority retains a portion of the amount it collects on these loans on behalf of the federal government.
4. USDE now requires lenders to pay USDE when the lenders have negative special allowance. The Authority paid \$678,205 for the fiscal year ended June 30, 2017.

#### CFDA #84.176:

1. Program participants repaid \$478 to the Authority. The Authority owes the federal government \$478 at June 30, 2017.

**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Mr. George L. Kennedy, III, CPA  
State Auditor  
Office of the State Auditor  
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Carolina State Education Assistance Authority (the "Authority"), a component unit of the State of South Carolina, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 29, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina  
September 29, 2017

**Independent Auditor's Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance in Accordance with the Uniform Guidance**

Mr. George L. Kennedy, III, CPA  
State Auditor  
Office of the State Auditor  
Columbia, South Carolina

**Report on Compliance for Each Major Federal Program**

We have audited South Carolina State Education Assistance Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina  
September 29, 2017

# South Carolina State Education Assistance Authority

## Schedule of Findings and Questioned Costs

For the year ended June 30, 2017

### Section I. Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes X No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes X None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes X No

#### Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes X No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes X None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be  
Reported in accordance with Section 2 CFR 200.516(a)  
of the Uniform Guidance? \_\_\_\_\_ Yes X No

Identification of major federal programs:

CFDA #

Program / Cluster Name

84.032

Federal Family Education Loan Program - Guaranty Agencies

Dollar threshold used to distinguish between  
Type A and Type B programs

\$ 750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes X No

Section II. Financial Statement Findings \_\_\_\_\_ Yes X None reported

Section III. Federal Award Findings and Questioned Costs \_\_\_\_\_ Yes X None reported

---

**South Carolina State Education Assistance Authority*****Summary Schedule of Prior Audit Findings******For the year ended June 30, 2017***

---

There were no findings reported for the year ended June 30, 2016.